

# J Joint Report of the Environment and Management Committees

For the Metropolitan Council meeting of August 13, 2008

## ADVISORY INFORMATION

**Date Prepared:** July 25, 2008

**Subject:** Transfer of Excess MCES Operating Reserves

### Proposed Action

That the Metropolitan Council approve a transfer of \$0.5 million from the Reserve/Contingency Fund to the Liability Self-Insurance Fund.

### Summary of Committee Discussions:

#### 1) Environment Committee – July 22, 2008:

Staff discussed options for use of the excess reserve (in addition to the recommended transfer to the self-insurance reserve) including: pay-as-you-go for capital projects, contributions to the post-retirement medical reserve, revival of the non-point grant program (used to be required for the Metro plant permit), I/I grants to municipalities, costs for a FEMA-required dike inspection and certification (delayed until 2009), and a possible renewable energy project (nothing yet proposed). Given the uncertainty in markets and the financial stress on wastewater rates, particularly SAC, the committee agreed to leave the remainder of the surplus in the reserve, for now.

The amendment passed unanimously.

#### 2) Management Committee – July 23, 2008:

There was discussion of the exposure covered by the ES self insurance reserve. This reserve covers general liability from wastewater operations and automotive liability for the MCES fleet. These liabilities are limited by the state tort cap. There have been no disbursements since the reserve was established about a year ago. The Council also maintains a high-retention policy to back-up this exposure.

Staff mentioned that the operating reserve is earning interest, as part of the Council's general investment portfolio, yielding about 4%. These funds return to the ES operating fund.

CM Sanda asked about the Council liability related to sewer backups in Columbia Heights. Staff answered that that exposure was before the establishment of the ES self-insurance reserve, and was less than \$10,000.

CM Hill-Smith commented, in regard to the possible use of the reserve for I/I grants, that I/I mitigation should be a regional responsibility. Staff noted that a regional task force suggested the current surcharge program, regional grants and loans were available prior to the surcharge program, and that the Council currently has a small grant program for foundation drain mitigation and it is being expanded to service lateral repairs (the homeowners pipe between the house and city pipe in the street).

The amendment passed unanimously.

**E** Environment Committee

Meeting date: July 22, 2008

**M** Management Committee

Meeting Date: July 23, 2008

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**Date:** July 10, 2008**Subject:** Transfer of Excess Metropolitan Council Environmental Services (ES) Operating Reserves**District(s), Member(s):** All**Policy/Legal Reference:** Council policies 3-1-3 and 3-8**Staff Prepared/Presented:** Jason Willett 651-602-1196**Division/Department:** MCES c/o William G. Moore 651-602-1162**Proposed Action**

That the Metropolitan Council approve a transfer of \$0.5 million from the Reserve/Contingency Fund to the Liability Self-Insurance Fund.

**Background**

Financial results for 2008 have been established with the completion of the annual audit, allowing action on the allocation of excess reserves to other uses. Council policy 3-8 establishes a target for ES operating reserves of 10% of annual budgeted expenses, exclusive of debt service and pay-as-you-go for capital project expenses. The reserves at the beginning of 2008 exceed the 10% target by \$6.7 million. One million of that excess was authorized for the 2008 operating budget, and use of another \$1 million is planned in the preliminary 2009 budget for rate mitigation, leaving \$4.7 million above the target.

A new Liability Self-Insurance Fund was established in 2007 to provide a cap to the exposure ES would face in any given year. The initial funding was for one million, to match the tort cap outlined in statute and the deductible in our insurance policy.

**Rationale**

The statutory tort cap has risen in 2008 to \$1.2 million, and will increase to \$1.5 million in 2009. It is recommended that the ES Self-Insurance Fund be supplemented with \$0.5 million of the 2007 surplus to bring the ES Self-Insurance Fund to the 2009 tort cap level.

The Council could allocate the remaining \$4.2 million of excess reserves to achieve other wastewater purposes. Options were discussed at the Environment Committee meeting on May 13th of this year. At that time, action was delayed awaiting the final audit of the 2007 financial results and the post-retirement actuarial study. The consensus reached at that meeting was to not allocate the entire excess reserves to other purposes at this time given the economic stress to the SAC fund and wastewater rates. The actuarial study forecast that the MCES post-retirement benefits will be fully funded (with interest to be earned in the trust fund) by the end of 2014 and annual payments up to that point can be gradually reduced. Thus no additional transfer to the post-retirement fund, as discussed in Council policy 3-1-3, is recommended at this time.

**Funding**

No new funding is required. However, transfers between Council funds require Council authorization.

**Known Support / Opposition**

None.